

Taunton Deane Borough Council

Corporate Governance Committee – 4 December 2017

SWAP Internal Audit – Internal Audit Plan 2017/18 Progress

This matter is the responsibility of Executive Councillor Richard Parrish

Report Author: Alastair Woodland, Assistant Director, SWAP

1 Executive Summary

- 1.1 The Internal Audit function plays a central role in corporate governance by providing assurance to the Corporate Governance Committee, looking over financial controls and checking on the probity of the organisation.
- 1.2 The 2017-18 Annual Audit Plan is to provide independent and objective assurance on TDBC's Internal Control Environment. This work will support the Annual Governance Statement.

2 Recommendations

- 2.1 Members are asked to note progress made in delivery of the 2017/18 internal audit plan and significant findings since the previous update in September 2017.

3 Risk Assessment

- 3.1 Any large organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. TDBC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement.

Risk Matrix

Description	Likelihood	Impact	Overall
Without the delivery of the approved audit plan there is the risk of insufficient audit work being completed to provide a reasonable assurance to stakeholders that there is an effective control framework in place, adequately mitigating risks to the authority's risk appetite.	3	3	9

Risk Scoring Matrix

Likelihood	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
Impact							

Likelihood of risk occurring	Indicator	Description (chance of occurrence)
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Background

4.1 This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September 2017.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

4.2 The Internal Audit Progress Report for 2017/18 is contained within the attached SWAP Report.

5 Links to Corporate Aims

5.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

6 Finance

6.1 There are no specific finance issues relating to this report.

7 Legal Implications

7.1 There are no specific legal issues relating to this report.

8 Environmental Impact Implications

8.1 There are no direct implications from this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct implications from this report.

10 Equality and Diversity Implications

10.1 There are no direct implications from this report.

11 Social Value Implications

11.1 There are no direct implications from this report.

12 Partnership Implications

12.1 There are no direct implications from this report.

13 Health and Wellbeing Implications

13.1 There are no direct implications from this report.

14 Asset Management Implications

14.1 There are no direct implications from this report.

15 Consultation Implications

15.1 There are no direct implications from this report.

Democratic Path:

- **Corporate Governance Committees – Yes**
- **Cabinet/Executive – No**
- **Full Council – No**

Reporting Frequency : Once only Ad-hoc Quarterly

Twice-yearly

Annually

List of Appendices (delete if not applicable)

Appendix A	SWAP Internal Audit Progress Report 2017/18
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Contact Officers

Name	Alastair Woodland
Direct Dial	07720312467
Email	Alastair.woodland@sotuhwestaudit.co.uk

Name	Ian Baker
Direct Dial	07917628774
Email	Ian.Baker@southwestaudit.co.uk

Taunton Deane Borough Council

Report of Internal Audit Activity

Plan Progress 2017/18 November 2017

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 848540

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@southwestaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07872500675

Alastair.woodland@southwestaudit.co.uk

➡ Role of Internal Audit

Page 1

➡ Internal Audit Work

Page 2

➡ Approved Changes to the Audit Plan

Page 3

➡ Appendices:

Appendix A – Internal Audit Definitions

Page 4 -5

Appendix B – Internal Audit Work Plan

Page 6 – 8

Appendix C – Summary of Key Audit Findings

Page 9 -12

Internal Audit Plan Progress 2017/2018

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



Role of Internal Audit

The Internal Audit service for the Taunton Deane Borough Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Corporate Governance Committee at its meeting on March 2017.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2017.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

Internal Audit Plan Progress 2017/2018

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2016/17. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A** of this document.

Overall good progress is being made on the Audit Plan 2017-18. Current progress as at the end of November can be seen from **Appendix B**.

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the September 2017 update there are two Partial Assurance reviews I need to bring to your attention. These are; Housing Compliance – Gas Safety and Car Parking Maintenance. Further details on these reviews can be found in **Appendix C**.

In addition to the two ‘Partial Assurance’ audits, there is one non-opinion/advisory audit that I need to bring to your attention regarding the Council Tax Base Calculation process. Further details can be found within **Appendix C**.

Internal Audit Plan Progress 2017/2018

We keep our audit plans under regular review to ensure that we are auditing the right things at the right time.



Approved Changes to the Audit Plan

The audit plan for 2017/18 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Taunton Deane Borough Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the September 2017 committee report there have been the following plan changes:

- **Council Tax Base Calculation** – We mentioned in September that we would be required to spend time looking at the Council Tax Base Calculation but at that time we hadn't agreed where the time would be taken from. To allow this review the Housing Rents follow up audit in quarter 4 has been pushed back to the 2018-19 Audit Plan and will form a full review of the service early in the year. The Business Development – Project Management Review has also been pushed back to quarter 1 of the 2018-19 audit plan.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion/Advisory

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
No Assurance	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Non-Opinion/Advisory – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management & the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Operational Audit	Impact of Universal Credit/Welfare Reform	Q1	Final	Reasonable	4	0	0	4	0	0	
Operational Audit	Use of Non-Contracted Suppliers - DLO	Q1	Final	Partial	8	0	0	6	2	0	Reported September 2017
Governance, Fraud & Corruption	Compliance with IR35	Q1	Final	Reasonable	4	0	0	4	0	0	
Operational Audit	Trade materials	Q1	Final	Non-Opinion	0	0	0	0	0	0	
Operational Audit	Car Parking maintenance	Q1	Final	Partial	6	0	0	3	3	0	Details in Appendix C
Follow Up	Crematorium follow up	Q2	Final	Follow up	9	0	0	5	4	0	Reported September 2017
Follow Up	Building Control follow up	Q2	Final	Follow up	1	0	0	1	0	0	Reported September 2017
Operational Audit	Housing Compliance – Gas Safety	Q2	Final	Partial	8	0	0	7	1	0	Details in Appendix C
Operational Audit	Grants - DFG & Other	Q2	Final	Reasonable	7	0	1	6	0	0	
Governance, Fraud & Corruption	Council Tax Base Review	Q3	Final	Advisory	1	0	0	0	1	0	Details in Appendix C
DRAFT											
Key Control	Discretionary Payments - Housing	Q3	Draft	Reasonable							

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Governance, Fraud & Corruption	Use of Consultants	Q2	Drafting								
Governance, Fraud & Corruption	Organised Crime - Compliance Checklist	Q2	Drafting								
ICT	New TDBC Website post implementation	Q1	Drafting								
Follow Up	User Access Management follow up	Q2	Drafting								
IN PROGRESS											
Governance, Fraud & Corruption	Transformation Programme	Q1, Q2, Q3, Q4	In Progress								
Governance, Fraud & Corruption	New premises - project management	Q2	In Progress								
Governance, Fraud & Corruption	Post Implementation Review - Finance System, HR & Payroll	Q2	In Progress								
Key Control	Creditors	Q3	In Progress								
Key Control	Debtors	Q3	In Progress								
Governance, Fraud & Corruption	Business Rate Avoidance	Q3	In Progress								
Governance, Fraud & Corruption	Culture & Ethics Survey	Q4	In Progress								

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
ICT	Disaster Recovery	Q3	In Progress								
NOT STARTED											
Key Control	Main Accounting	Q3									
ICT	Cyber Security	Q3, Q4									
Operational Audit	Development Control	Q4									
Key Control	Payroll	Q4									
Governance, Fraud & Corruption	DPA/GDPR Follow Up	Q4									
Key Control	System Parameter testing Civica	Q4									
Governance, Fraud & Corruption	Procurement Analysis	Q4									
DEFERRED											
Operational Audit	Business Development - Project & Programme Management	Q4				Replaced by Council Tax Base Review. Rescheduled for quarter 1 2018-19 plan.					
Key Control	Housing Rents Follow Up	Q4				Replaced by Council Tax Base Review. Full review to be scheduled for quarter 1 of 2018-19 plan.					

Audit completed since the September 2017 update:

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.



Summary of Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in September 2017. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the September 2017 update there are two Partial Assurance audit opinions that I need to bring to your attention and one Non-Opinion/Advisory.

Operational Audits

Operational audits are a detailed evaluation of a Service’s control environment. A risk matrix is devised and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Housing Compliance - Gas Safety – Partial Assurance

The Council currently maintains a housing stock of approximately 5,800 properties and circa 4,500 have some form of gas appliance in the house. As a Landlord the Council is legally responsible for the safety of their tenants in relation to gas safety. The Gas Safety (Installation and Use) Regulations 1998 requires the Council to:

- Repair and maintain gas pipework, flues and appliances in a safe condition.
- Ensure an annual gas safety check is carried out on each appliance; and
- Keep a record of each safety check carried out.

A record of all gas safety checks is maintained on the Academy system. All gas safety checks and required repairs and maintenance must be carried out by a qualified and registered engineer.

Audit completed since the September 2017 update: Assignments since the

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Operational Audits Continued

All engineers need to be registered on the Gas Safe Register and carry the Gas Safe Identification card which shows what appliances they are qualified to work on. All gas safe registered engineer's details can also be obtained via the Gas Safe website. The Council had outsourced the Gas Safety Checks to a contractor but in April 2017 this was brought back in house. By bringing the system back in house the Council has greater control over the process but also needs to ensure the controls they have in place are suitable to ensure all properties receive a gas safety check each year.

The Council have been managing the scheduling of Gas Safety checks through a spreadsheet to create a Gas Hit list each month which includes all properties requiring an inspection within the next month. Managing the process via spreadsheets can work but is inherently risky as they are open to manipulation and data corruption. To safeguard against this the Council has introduced a new database system to manage the Gas Safety Checks which is called 'Gas Tag'. This was being installed while the audit was being conducted.

Partial assurance has been provided as there were twenty-six properties that were overdue for a gas safety check at the time of testing in August 2017. Some of these are believed to have been completed but the Landlords Gas Safety Record (LGSR) for these had not been returned and therefore it could not be confirmed that these had actually been completed. The 26 properties equates to 0.6% of the total number of properties that require a gas safety inspection. The main reason why some properties are not inspected within the 12-month period is down to access issues, i.e. an appointment is made yet the tenant is not in or will refuse access. Properties are usually inspected over a 10-month period to allow for a contingency where there are access issues. These 26 properties have been addressed as a matter of urgency by the gas safety inspection team. It is anticipated that the service will become more efficient with the roll out of Gas Tag.

A follow up audit will be scheduled in early for the 2018-19 plan to ensure the new Gas Tag system has successfully been installed and that inspections are up to date.

Audit completed since the September 2017 update: Assignments since the

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Operational Audits Continued

Car Parking Maintenance – Partial Assurance Audit

The objective of this review was to ensure that the Parking Maintenance plan takes into consideration the commitments within the Growth Agenda; that money is spent wisely and health and safety risks are controlled effectively.

This is the first time that car parking maintenance has been looked at since Taunton Deane Borough Council and West Somerset Council decided to align services under one management structure.

Testing has identified a key concern with regards to Management's knowledge of the car parking maintenance budget for West Somerset. While we have identified there is a sufficient budget for high priority repairs to be undertaken, during the course of this audit we were provided with three different figures that varied by £66.6k.

Further concerns were established with regards to the car parking strategies for each district. While there are strategies in place for each Council the document for West Somerset is out of date and the version for Taunton Deane is being updated by Parsons Brinkerhoff. A lack of direction does not help focus car park maintenance activities across both districts.

Concerns were also identified with regards to the failure to utilise the corporate risk management approach and an inadequate methodology for the assessment of risks to car parks. Current processes were based on a subjective assessment of health and safety.

While Parking Maintenance Plans are in place for each district they require updates. A further detailed and accurately costed Programme of Works is needed for the Orchard Multi-Storey Car Park in Taunton.

Audit completed since the September 2017 update: Assignments since the

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Governance Fraud & Corruption Audits

Governance, Fraud and Corruption Audits focus primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will in some cases enable SWAP to provide management with added assurance that they are operating best practice as these reviews are often conducted across multiple client sites.

Council Tax Base Calculation - Advisory

We were asked to look at the basis for how TDBC calculates the Council Tax Base. TDBC had sought independent legal advice on the legal requirements for how the Council Tax Base is calculated in relation to an aspect for ‘growth’, i.e. new dwellings. The remit of our work was to examine what actually happens and compare to the legal advice given. The scope of our work examined the 2016-17 tax base as this relates to the initial complaint received.

The legislation requires the Council, when calculating the Council tax base, to include dwellings that are on the valuation list, or which were not on the valuation list on that day but of which it had been notified by the valuation officer and which “had effect” on that day. Additionally, the Council should include on the list any dwellings for which a Council Tax Completion Notice has been issued for the relevant year if not notified by the valuation officer. The Council Tax setting process is based on the “relevant day” being the 30th November 2015 for the 2016-17 year.

The legislation allows for an adjustment, but the legal advice provided states that the Council has discretion as to its methodology for making such adjustments. The methodology used by TDBC was not as thorough as it could have been, but there is nothing prescriptive in legislation as to how and what should be taken into account for this adjustment. TDBC have reviewed their process and have made some changes to enhance the basis for the calculation.